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INTELLIGENCE HIGHLIGHTS -- WEEK OF 17 FEBRUARY - 25 FEBRUARY 1948

DOCUMENT NO. 32
NO CHANGE IN CLASS.
 DECLASSIFIED
CLASS. CHANGED TO: TS S C
NEXT REVIEW DATE: 01/89
AUTH: HR 70-2
DATE: 12-12-78 REVIEWER:

GENERAL

Chinese reaction to Korean developments

China's concern over recent events in Korea was emphasized on February 18 when Foreign Ministry spokesman Shih Chao-ying asserted that the Chinese Government will "take no cognizance of any government set up in Korea that is not established in accordance with the decisions of the United Nations Assembly" or the Moscow Agreement of December 1945. At the same time he stated that China would not recognize the "North Korea Democratic People's Republic." The Chinese Foreign Office maintains strongly that elections should be held in Southern Korea, but believes the US must accompany this action by giving any new government sufficient military force with which to defend itself, even if this requires that the US Army of Occupation remain in Korea indefinitely.

Philippine opposition to US policy in Japan

Indications that the Philippine Republic is developing a less conciliatory attitude toward US policy in Japan have been noted recently. In a speech in Manila on 17 February, Carlos P. Romulo, Philippine Ambassador to the United Nations, strongly opposed any liberalization of the occupation policy in Japan. This pronouncement was closely followed by a sharply worded statement from the Philippine Foreign Office rejecting a SCAP visa request for Japanese fisheries experts scheduled to attend the UN-FAO conference now meeting in Baguio.

In recent months public opinion and the press in the Philippines has reflected increasing criticism of the Japanese occupation. Filipinos are fearful that the "soft policy" of the United States will permit a resurgence of industrial and militaristic Japan directly affecting their security and retarding their economic recovery. The recent statement by Romulo which he noted was in "obedience to the dictates of his government" is at variance with the previous attitude of Philippine spokesmen and is undoubtedly more truly reflective of public opinion. It may also be interpreted as a further effort to develop a stronger bargaining basis for the recent requests for additional financial aid from the United States.

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SECRET

- 2 -

CONFIDENTIALJAPAN

Ashida elected Japanese Premier. Hitoshi Ashida, head of the conservative Democratic Party, was elected Premier by the lower house of the Diet on 21 February. Ashida obtained 216 votes to 180 for his rival, former Premier Shigeru Yoshida who heads the conservative Liberal Party. However, the House of Councillors, the upper house, gave Yoshida 104 votes to 102 for Ashida. The Constitution provides that if the upper house fails to ratify the vote of the lower house the latter's decision will prevail after ten days.

Ashida hopes to be able to form a coalition of Democrats, Socialists and People's Cooperatives, the same parties that formed Katayama's Cabinet. The left wing Socialists Party has publicly refused to support such a coalition. It is unlikely that the Liberals would join a Cabinet under Ashida or the Democrats one under Yoshida. Whether the Democrats or Liberals can form a Cabinet is open to question. Should either one succeed the foundations of the Cabinet should prove so unstable as to require a general election within a few months.

Japanese Diet investigating illegal property transactions. The Diet appointed an Illegal Property Transaction Investigation Committee in January to report on the illegal disposal of supplies of the former Japanese Army and Navy. Japanese Army and Navy supplies were naturally surrendered to the Occupation Forces after the surrender. Those items of a non-military nature were returned to the Japanese Government for the use of the civilian population. Great hoards of these supplies mysteriously disappeared from official channels to reappear on the black market. It has become increasingly clear that the financial support behind many Diet members has had a close connection with these supplies. A report on this subject, if made, could have severe repercussions within the Diet. The scandal probably will fall most heavily on the Liberals and the Democrats, both conservative parties. There are certain prominent left wing Socialists, however, who may also be implicated. A report, if made before the next general election, would provide considerable political capital.

Economics. According to KYODO, the Holding Company Liquidation Commission (HCLC) has completed the task of designating former Zaibatsu concerns which are to be dissolved or reorganized. A total of 83 holding companies have been designated of which 5 were the leading Zaibatsu, 40 influential parent holding companies, 20 subsidiary companies, 2 electric communications companies and 16 provincial Zaibatsu organizations. The HCLC is now to complete the dissolution, reorganize those firms not marked for dissolution and dispose of the large amount of securities taken over from the Zaibatsu. These securities, reportedly valued at 6,507,000,000 yen are to be transferred to the Securities Coordinating Liquidation Committee (SCLC), which in turn will sell them to the public. Already, the SCLC has sold such securities valued at 101,000,000 yen.

The wealth and resources of the Zaibatsu were one of the chief factors enabling Japan to embark upon a major war; hence, the dissolution of the Zaibatsu and the reorganization of their constituent firms is one of the major occupation policies of Japan. There appears to be little controversy that the Zaibatsu should be dissolved. However, the manner and extent of the reorganization has resulted in heated polemic. The greater part of the objection has centered on the economic

SECRET**CONFIDENTIAL**

SECRET

decentralization legislation which would split up "excessive concentration" of economic power. It is claimed by those adverse to such policy that this legislation will "communize" the Japanese economy. On the other hand, the proponents of the policy claim that it will be implemented judiciously and that only those concentrations will be dissolved or reorganized which otherwise can obviously be used to manipulate Japanese economic and political power toward war.

KOREA

Report on activation of Korean People's Army. General Hodge has submitted a report of observations made under some difficulties by American officers in Pyongyang of the official activation ceremonies of the Korean People's Army on 8 February 1948. Included in this report is the following significant information:

Present at the ceremonies were the Commander of the Soviet Zone, Lt. Gen. Korotkov, Soviet Chief of Staff Shanin, other Soviet generals, Chairman of the People's Committee Kim Il Sung and Chairman of the Praesidium of the People's Assembly Kim Doo Bong.

In his speech, Kim Il Sung emphasized three points: (1) the Korean People's Army is the first army in the history of Korea; (2) its purpose is to defend the people of North Korea and the new reforms they enjoy against any enemy; and (3) the people must strengthen and improve the army. The official title of the army is "Korean People's Army" and not "North Korean People's Army."

The opening ceremonies were followed by a parade of not more than 10,000 picked troops from the 1st and 2nd divisions. All vehicles, equipment and arms were of Soviet origin and, although used, were clean and in excellent condition. Good discipline was noted at the parade. What Pyongyang radio described as masses of fighter planes were actually two training monoplanes and one biplane bearing the Korean national emblem and dropping propaganda leaflets.

It has been reported from another source that the North Korean People's Committee is planning to conscript for the People's Army in the near future. Although this report is unconfirmed, G-2 24th Corps comments that the official activation of the People's Army and the formation of a Department of National Defense (also announced by Radio Pyongyang on 8 February) constitutes a legal basis for a conscription program.

SECRET

CONFIDENTIAL

-4-

CHINAMilitary

Last week the Communists assaulted and captured the important steel city of Anshan. The heavy concentration of Communist units in the area south of Mukden presents the greatest immediate threat to the Nationalist garrison there. The actual fall of Mukden, where shortages of food, fuel, and power are growing increasingly acute, would signal the end for the Nationalists in Manchuria. There was also considerable action northwest of Mukden where Faku and several points on the rail line to Hsinmin fell to the Communists. It was quiet on the military fronts of North and Central China. A report from Taiyuan, provincial capital of Shansi, states that 150,000 Communists are becoming dangerously active north, west, and south of that city. It is doubtful that such a large number of Communists are in this area or that Taiyuan is immediately threatened. Late dispatches indicate that at least two of Chen Yi's columns did not join in the move to southwest Shantung but remained in the region east of Hsuechang, Honan.

Political

Tu Yush-sheng, head of the Shanghai underworld, power among the business interests and political strong man, predicts for Shanghai "100 days of trouble" beginning with the upheaval of the past month. However, he feels that there is no danger to Shanghai at present and does not fear a serious uprising. Tu's position in the city offers him a peculiar capability for judging events, although the note of encouragement may result from a consideration only of his own very profitable enterprises. Nonetheless, his verdict generally agrees with the US Ambassador's analysis.

The Manifesto of the Chinese People's Liberation Army signed by Chu Teh late in 1947 agrees closely with Mao Tse-tung's speech of 25 December. The Manifesto presents aims for (1) an united front to overthrow Chiang and creation of a democratic coalition government, (2) punishment of civil war criminals, (3) introduction of civil freedoms, (4) end of corruption, (5) confiscation of property of the four leading families, (6) equal distribution of land, (7) acknowledgement of racial equality and autonomy of minorities, (8) removal of imperialist control in foreign policy. In general, the Manifesto is a call to the people to desert Chiang. Several specific points are listed that Mao did not mention but they are all in line with Mao's general policy. The two documents are closely parallel in tone and present a completely harmonious political position. No possibility of any compromise with the National Government is held out.

The Chinese delegate on the UN Trusteeship Council on 19 February intimated that China would not support proposals to create an armed force to guarantee the UN Palestine partition. Liu Chieh, in a special statement before the Council, stated that China had abstained from voting for partition and did not believe that a good Palestine solution could be wrought by force.

SECRET**CONFIDENTIAL**

SECRET

-5-

The Soviet Consul-General at Shanghai, Fedor Khalin, has been reported as departing for Moscow on leave. Khalin has been variously estimated as an ineffective official as well as "one of Russia's foremost authorities on China", and his return was preceded by rumors of an impending shift in his present post. However, his departure, following the recent recall to Moscow of Soviet Military Attache Major General V. Roschin, tends to point up reports of a conference to be held in Moscow on the USSR's policy toward China.

Economic

Currency/Prices. Although fluctuations were apparent, the Shanghai money and commodity markets did not run wild over the Lunar New Year (10 February) as predicted by many economists on the China scene. Foreign currency exchange was surprisingly stable, while prices advanced at near the January pace, about 6% a week. The US aid proposal of US \$570 million may well have been a temporary stabilizing factor. Recent reports, however, indicate that the period of stability may be short-lived. The blackmarket selling rate for US dollars fluctuated between CN \$210,000 and 240,000 on 19 February while the US \$ TT rate was reported between CN \$235,000 and 240,000. Blackmarket gold bars touched CN \$150 million per 10.0471 troy ounces (equivalent to US \$71.43 anounce). Blackmarket rates a week before (12 February) stood at about CN \$180,000 for US dollars, and CN \$130 million for gold bars. The commodity price index at Shanghai increased at about 5% per day between 14-18 February. In spite of the Government's dumping of large stocks at Shanghai, rice was reported selling at CN \$2,200,000 a picul.

Aluminum. The Chinese National Resources Commission and the Reynolds Metals Co. of New York have announced the signing of a preliminary agreement, subject to Executive Yuan approval, for expansion and joint operation of aluminum facilities at Takao, Taiwan (Formosa). The Takao plant is now reported to be producing at the annual rate of 4,000 tons, and China hopes to increase this to over 20,000 tons.

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~~SECRET~~**CONFIDENTIAL**

-6-

INDONESIA

The recent evacuation of 24,000 Republican troops from Dutch-held territory in Indonesia under the terms of the 17 January truce agreement marks one of the first instances of successful Dutch-Republican cooperation. It is quite apparent that the Republic has exerted special efforts to insure success of the truce since its breakdown would clearly give the Dutch a key position in future political negotiations. Failure of the truce would have given the Dutch an excuse to resume police actions on the grounds that the Republic did not have full control of its forces and hence could not maintain internal order. Continued successful implementation of the truce will improve the chances for a durable political settlement and will help restore the Republic's prestige in the eyes of foreign countries. In short the Republic seems to have made immediate broad military concessions to the Dutch in order to gain long-term political advantages.

FRENCH INDOCHINAPossibility of Ho Chi Minh's Inclusion in a New Indochina Regime

Developments in the French scheme to institute a regime in Indochina under former Annamite emperor Bao Dai indicate that the possibility of including Ho Chi Minh in the new government has further complicated the settlement of the Vietnam problem. Whether Ho can or will be brought into the government will depend partly upon the conditions under which Bao Dai returns. Observers who believe that reconciliation between the two leaders is possible recall that Ho has said he would yield to anyone who could attain the desired unity and independence for Vietnam. Significant in this connection, also, was High Commissioner Follaert's recent statement that the inclusion or exclusion of Ho in Bao Dai's new regime was an internal Vietnamese affair, apparently an attempt to divorce the French from the delicate question of relations with Ho. On the other hand, Radio Vietnam has made only infrequent references to the former emperor and Viet Minh supporters have recently attacked Bao Dai as a fascist and an enslaver of Vietnam. The basic fact remains, however, that prospects for peace are negligible without Ho's participation in peace negotiations with the French.

SIAM

The nationalist movement in the predominantly Malayan population in southern Siam has been given impetus by the growth of the pan-Malayesian movement as exemplified by the establishment of the Malay Federation and the Republic of Indonesia. These Malay states comprising Siam's four southern-most provinces, once independent sultanates, have been under Siamese sovereignty since the 18th century. There have been many attempts by the Malays to revolt against the Siamese which have invariably led to violent Siamese suppressions. As a result, there has grown up a spirit of animosity accentuated by religious difference, which, in an atmosphere of political and economic instability, is finding expression in general lawlessness and preparation for further revolt.

This problem has recently been aggravated by the arrest of several Malay leaders who have been agitating for the transfer of the four Southern

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-7-
CONFIDENTIAL

SIAM (continued)

provinces from Siamese control to that of the Malay Federation. This development has caused the Siamese Government to promise prompt consideration of several remedies, among which are: (1) the division of the Southern Provinces into seven administrative regions, as formerly, in order to give more careful attention to the individual needs of each region, (2) the appointment of a prominent Moslem as High Commissioner for the Southern Provinces, and (3) the immediate investigation of Malayan grievances.

The Siamese Government is believed to be aware of the potential seriousness of the situation and with the re-appointment of Khuang Aphairong as Premier it is possible that the Malayan minority problem can be adequately, if not sympathetically, administered. Unless this is achieved, the Southern Provinces will remain a source of potential trouble, the ramifications of which could possibly exceed the confines of a purely domestic problem.

PHILIPPINES

USSR-Philippine Trade Relations Proposed by Soviets

The USSR has recently shown an interest in establishing trade relations with the Philippines despite the fact that it has not officially recognized the Republic. Tentative negotiations apparently began with discussions held with Philippine officials while the Soviet Trade Representative in Japan was attending the recent ECAPP conference in Baguio. The USSR has indicated its desire to obtain sugar, abaca, and coconut products and is reported to have offered paper, plywood, lumber, window glass, and crabmeat.

Official Philippine attitude has not been clearly stated although it is reported that the Philippine Department of Foreign Affairs has decided to allow trade with the USSR by private interests.

The world market is currently absorbing Philippine export surpluses at record prices and the USSR will have to make exceptionally attractive offers to divert Philippine trade from its normal channels. Negotiations on Soviet offers are being checked to determine whether the USSR is actually making a real bid for Philippine trade.

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